

**REPORT OF THE AUDIT OF THE  
LAUREL COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2001**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**LAUREL COUNTY SHERIFF**

**For The Year Ended**  
**December 31, 2001**

The Auditor of Public Accounts has completed the Laurel County Sheriff's audit for the year ended December 31, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

Excess fees increased by \$10,547 from the prior calendar year, resulting in excess fees of \$14,695 as of December 31, 2001. Revenues increased by \$192,086 from the prior year and disbursements increased by \$181,539.

**Debt Obligations:**

Total debt principal as of December 2001, was \$35,519. Future collections of \$35,519 are needed over the next 4 years to pay all debt principal and interest.

**Report Comments:**

- The Sheriff Should Eliminate Deficit In His Official Fee Account
- The Sheriff Should Present His Settlement To The Fiscal Court And Pay Excess Fees
- The Sheriff Should Receive Salary In Accordance With The Salary Recommended By The Department For Local Government
- The Sheriff Should Avoid Paying For Late Charges And Interest From His Official Fee Account
- The Sheriff Should Account For All Receipts Properly
- Proper Documentation Should Be Kept For All Expenditures And Bids Should Be Obtained For All Expenditures Requiring Bids
- The Sheriff Should Publish His Annual Financial Statement
- The Sheriff Should Submit Required Financial Reports To The Department For Local Government
- The Sheriff Should Submit Required Reports For Asset And Forfeiture Transactions
- The Sheriff Should Properly Account For All Contract Labor Transactions
- The Sheriff Should Provide The Same Health Insurance Coverage To All Employees
- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To The People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Lawrence Kuhl, Laurel County Judge/Executive  
Honorable Gene Hollon, Laurel County Sheriff  
Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Laurel County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 24, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Lawrence Kuhl, County Judge/Executive  
Honorable Gene Hollon, Laurel County Sheriff  
Members of the Laurel County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Eliminate Deficit In His Official Fee Account
- The Sheriff Should Present His Settlement To The Fiscal Court And Pay Excess Fees
- The Sheriff Should Receive Salary In Accordance With The Salary Recommended By The Department For Local Government
- The Sheriff Should Avoid Paying For Late Charges And Interest From His Official Fee Account
- The Sheriff Should Account For All Receipts Properly
- Proper Documentation Should Be Kept For All Expenditures And Bids Should Be Obtained For All Expenditures Requiring Bids
- The Sheriff Should Publish His Annual Financial Statement
- The Sheriff Should Submit Required Financial Reports To The Department For Local Government
- The Sheriff Should Submit Required Reports For Asset And Forfeiture Transactions
- The Sheriff Should Properly Account For All Contract Labor Transactions
- The Sheriff Should Provide The Same Health Insurance Coverage To All Employees
- The Sheriff's Office Lacks Adequate Segregation Of Duties

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
May 14, 2004



LAUREL COUNTY  
 GENE HOLLON, COUNTY SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2001

Receipts

Federal Grants:

Direct Grants	\$	69,268
Equipment Grant		6,678

State Grants		55,837
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State Fees For Services:

Cabinet For Human Resources		33,420
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Circuit Court Clerk:

Sheriff Security Service	\$	46,035
Fines and Fees Collected		1,044
Court Ordered Payments		1,358
		48,437

Fiscal Court:

Fiscal Court Support	\$	306,595
Insurance Reimbursement		19,527
Transporting Juveniles		23,595
		349,717

County Clerk - Delinquent Taxes		7,913
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Commission On Taxes Collected	\$	502,467
Sheriff's Add-On Fees		85,641
Second Notice On Property Taxes		13,701
Transient Tax Commissions		11,006
		612,815

Fees Collected For Services:

Auto Inspections	\$	26,318
Accident and Police Reports		1,080
Carrying Concealed Deadly Weapon Permits		22,718
Serving Papers		60,632
Transporting Prisoners		15,830
		126,578

Other:

Miscellaneous		31,692
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The accompanying notes are an integral part of the financial statement.

LAUREL COUNTY  
 GENE HOLLON, COUNTY SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Year Ended December 31, 2001  
 (Continued)

Receipts (Continued)

Other: (Continued)

Helicopter Fund Receipts (Note 5)	\$	1,337
Interest Earned		6,964
Borrowed Money:		
Bank Note		<u>115,056</u>
Total Receipts	\$	<u>1,465,712</u>

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$	711,839
Contract Labor		1,155
Employee Benefits-		
Employer's Share Social Security		47,963
State Unemployment		2,516
Employer Paid Health Insurance		<u>92,008</u>
	\$	855,481
Contracted Services-		
Advertising	\$	409
Professional Fees		<u>1,180</u>
		1,589
Materials and Supplies-		
Carrying Concealed Deadly Weapon Permits	\$	13,155
Office Materials and Supplies		36,884
Uniforms		<u>19,655</u>
		69,694
Other Charges-		
Helicopter Insurance		2,000

The accompanying notes are an integral part of the financial statement.

LAUREL COUNTY  
 GENE HOLLON, COUNTY SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Year Ended December 31, 2001  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges (Continued)

Bond	\$	1,193	
Telephone and Communications		50,070	
Conventions and Training		13,370	
Drug Program		950	
Dues and Subscriptions		1,173	
Miscellaneous		15,994	
Helicopter Fund Disbursements		<u>1,337</u>	\$ 84,087
Auto Expense-			
Gasoline	\$	61,971	
Maintenance		63,546	
Toll Cards		<u>46</u>	125,563
Capital Outlay-			
Office Equipment	\$	44,239	
Vehicles		<u>79,241</u>	123,480
Debt Service:			
Loan	\$	115,056	
Interest		<u>2,691</u>	<u>117,747</u>
Total Disbursements			\$ 1,379,641
Less: Disallowed Disbursements -			
Interest on Bank Loan	\$	2,691	
Late Charges on Lease Agreement		<u>2,565</u>	<u>5,256</u>
Total Allowable Disbursements			<u>\$ 1,374,385</u>
Net Receipts			\$ 91,327
Less: Statutory Maximum	\$	74,443	
Training Incentive		<u>2,189</u>	<u>76,632</u>
Excess Fees Due County for 2001			<u><u>\$ 14,695</u></u>

The accompanying notes are an integral part of the financial statement.

LAUREL COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year. A schedule of excess of liabilities over assets is included in this report as a supplemental schedule. The schedule indicates the cumulative effect of prior year deficits under the respective fee official.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months of the year and 6.41 percent for the last six months of the year.

LAUREL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2001  
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2001, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Leases

- A. The Sheriff's office is committed to a lease agreement with Pitney Bowes, Inc. for a digital copier. The agreement requires a monthly payment of \$132 for 48 months to be completed in June 2005. The total balance of the agreement was \$5,940 as of December 31, 2001.
- B. The Sheriff's office is also committed to a lease agreement with Leasing One for two (2) vehicles. The agreement requires an annual payment of \$42,328 for 3 years. The total balance of the agreement was \$29,579 as of December 31, 2001.

Note 5. Helicopter Account

The Sheriff opened a bank account during 1999 which he uses for helicopter expenses. The balance on January 1, 2001 was \$1,132. He had receipts totaling \$1,025 during the year and expenditures totaling \$1,337. As of December 31, 2001, the balance in the account was \$820. These funds are not available for use as excess fees.

Note 6. Asset Seizure Account

During 2000, the Sheriff received \$170,153 from the federal government from the return of asset seizures. These funds must be used for law enforcement purposes. The balance on January 1, 2001 was \$ 129,023. During the year, the bank account earned interest of \$1,546 and had expenditures totaling \$108,072 that consisted of purchases of vehicles and equipment. The ending balance as of December 31, 2001 was \$22,497. These funds are not available for use as excess fees.

LAUREL COUNTY  
 GENE HOLLON, COUNTY SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

December 31, 2001

Assets

Cash in Bank- all accounts	\$ 33,683
Deposits in Transit	64,011
Receivables	
Refund Due From Fiscal Court - 1997 Excess Fees	<u>7,365</u>
Total Assets	<u>\$ 105,059</u>

Liabilities

Paid Obligations:	
Outstanding Checks	\$ 8,200
Liabilities Paid After December 31, 2001	76,024
Unpaid Obligations:	
Laurel County-	
Excess Fees - 1998	\$ 20,237
Excess Fees - 2000	4,148
Excess Fees - 2001	14,695
Laurel County Sheriff	
Underpayment of Salary for 2000	224
Underpayment of Salary for 2001	<u>2,111</u>
Total Unpaid Obligations	<u>41,415</u>
Total Liabilities	<u>\$ 125,639</u>
Total Fund Deficit as of December 31, 2001	<u><u>\$ (20,580)</u></u>

## COMMENTS AND RECOMMENDATIONS





LAUREL COUNTY  
GENE HOLLON, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2001

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Eliminate Deficit In His Official Fee Account

The Sheriff has a cumulative deficit of \$20,580 in his official fee account as of December 31, 2001. This deficit is the result of excess fees owed the fiscal court for 1998 in the amount of \$20,237, less a refund of \$7,365 due from the fiscal court for overpayment of 1997 excess fees. The Sheriff also owes \$4,148 in excess fees for 2000 and \$14,695 for 2001. The Sheriff is due additional salary of \$224 for 2000 and \$2,111 for 2001. Some of the deficit is the result of the Sheriff paying interest and late charges totaling \$2,452 and \$5,256 for 2000 and 2001. We recommend the Sheriff collect receivables and pay excess fees and additional salary due. The Sheriff should also deposit personal funds of \$20,580 to eliminate the deficit.

*County Sheriff's Response:*

*I understand.*

2. The Sheriff Should Present His Settlement To The Fiscal Court And Pay Excess Fees

The Sheriff did not present his annual settlement to the fiscal court and pay excess fees. According to KRS 134.310(5), the sheriff shall file annually with his final settlement: (a) a complete statement of all funds received by his office for official services, showing separately the total income received by his office for services rendered, exclusive of commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and (b) a complete statement of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses. KRS 134.310(6) states "at the time he files the statements required by subsection (5) of this section, the sheriff shall pay to the fiscal court any fees commissions, and other income of his office, including income from investments, which exceed the sum of his maximum salary as permitted by the Constitution and other reasonable expense, including the compensation of deputies and assistants. The settlement for excess fees and commissions and other income shall be subject to correction by audit conducted pursuant to KRS 43.070 or 64.810." We recommend the Sheriff comply with KRS 134.310 by paying excess fees of \$14,695 and presenting his annual financial settlement to the fiscal court.

*County Sheriff's Response:*

*We will comply.*

LAUREL COUNTY  
 GENE HOLLON, COUNTY SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2001  
 (Continued)

3. The Sheriff Should Receive Salary In Accordance With The Salary Recommended By The Department For Local Government

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The Sheriff did not receive the maximum salary as determined by the Department For Local Government. The Sheriff's salary was \$2,111 less than the salary recommended by the Department For Local Government. According to KRS 64.535, the Department For Local Government shall fix the Sheriff's maximum salary. We recommend the Sheriff comply with KRS 64.535 by issuing a payroll check for this underpayment.

*County Sheriff's Response:*

*We will comply.*

4. The Sheriff Should Avoid Paying For Late Charges and Interest From His Official Fee Account

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The Sheriff paid \$2,691 in interest payments to the bank for loans he obtained to pay for the operating expenses of his office. He also made late payment charges totaling \$2,565 for late payment of a lease-purchase agreement. The Sheriff did not participate in the Sheriff's Advancement Programs. Technical Audit Bulletin 93-001 Section (3) states "any of the following practices shall be subject to an audit comment relating to KY Const. S 173; KRS 61.190 and 132.601(1); and Funk v. Milliken, 317 S.W.2d 499 (KY 1958):

- Penalties for late payments
- Interest incurred on a personal loan by a sheriff who chooses not to participate in the Sheriff's Advancement Programs"

We recommend the Sheriff comply with Technical Audit Bulletin #93-001 Section 3.

*County Sheriff's Response:*

*We will comply.*

5. The Sheriff Should Account For All Receipts Properly

The Sheriff is not accounting for receipts properly. Bank deposits are not made on a daily basis and daily checkout sheets are not maintained. The Sheriff is not preparing monthly bank reconciliations. According to Technical Audit Bulletin T.A.B. #93-002 Section 4, any of the following practices shall be subject to report as an audit comment relating to the noncompliance with the accounting and documentation provisions in KRS 64.840 and KRS 68.210:

- A collection of public funds, which is not recorded daily on a daily checkout sheet as provided in the Uniform System of Accounts as referenced in KRS 68.210
- The failure to reconcile daily check-out sheets with daily deposit totals; or
- Any official bank account statements that have not been reconciled monthly by a person other than the person who has signature authority or makes deposits to the official accounts

GENE HOLLON, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2001  
(Continued)

5. The Sheriff Should Account For All Receipts Properly (Continued)

We recommend the Sheriff comply with Technical Audit Bulletin T.A.B. # 93-002 Section 4 by recording daily receipts on a daily checkout sheet, reconciling daily checkout sheets with daily bank deposits and reconciling bank account statements monthly by a person other than the one who has signature authority or makes deposits into the official accounts.

*County Sheriff's Response:*

*We understand and are complying with this now.*

6. Proper Documentation Should Be Kept For All Expenditures And Bids Should Be Obtained For All Expenditures Requiring Bids

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The Sheriff is not accounting for disbursements properly. The Sheriff did not have proper documentation for many of the disbursements selected for testing. Technical Audit Bulletin T.A.B.#93-001 Section 4(c) states "The expenditure of public funds without maintaining proper and accurate documentation is subject to an audit comment." Also, the Sheriff did not advertise for bids for all vehicles and fuel purchased. KRS 424.260(1) states "except where a statute specifically fixes a larger sum as the minimum requirement of advertisement for bids, no Sheriff shall make a contract, lease, or other agreement for materials or supplies involving an expenditure of more than twenty thousand dollars without first making newspaper advertisement for bids." KRS 424.260(2) states, "If the fiscal court requires that the Sheriff advertise for bids on expenditures of less than twenty thousand dollars, the fiscal court requirement shall prevail." We recommend the Sheriff comply with Technical Audit Bulletin T.A.B.#93-001 Section 4(c) by maintaining proper documentation for expenditures made from his official fee account. We also recommend the Sheriff comply with KRS 424.260(1) by obtaining bids for expenditures exceeding twenty thousand dollars.

*County Sheriff's Response:*

*We will comply.*

7. The Sheriff Should Publish His Annual Financial Statement

The Sheriff did not publish his annual financial statement. KRS 424.220 (6) & (8) states "the Sheriff shall, within sixty days after the close of the Sheriff's fiscal year, cause the financial statement to be published in full in a newspaper qualified under KRS 424.120 to publish advertisements for the county. Promptly after publication is made; the Sheriff shall file a written or printed copy of the advertisement with proof of publication, in the office of the county clerk of the county and with the Auditor of Public Accounts. Promptly after publication is made, the Sheriff shall also file one (1) copy of the financial statement with the Kentucky Department For Local Government." We recommend the Sheriff comply with KRS 424.220 by publishing his annual financial statement within sixty days after the close of the Sheriff's fiscal year.

*County Sheriff's Response:*

*We will comply and are complying now.*

LAUREL COUNTY  
GENE HOLLON, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2001  
(Continued)

8. The Sheriff Should Submit Required Financial Reports To The Department For Local Government

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The Sheriff did not submit the required financial reports to the Department For Local Government. KRS 68.210 states that the Sheriff shall file financial reports with the Department For Local Government. We recommend the Sheriff comply with KRS 68.210 by submitting the required reports to the Department For Local Government.

*County Sheriff's Response:*

*We understand and are complying now.*

9. The Sheriff Should Submit Required Reports For Asset And Forfeiture Transactions

The Sheriff did not submit the required reports for asset and forfeiture transactions. Each law enforcement agency seizing money or property pursuant to KRS 218A.415 shall, at the close of each fiscal year, file a statement with the Auditor of Public Accounts and with the secretary of justice containing a detailed listing of all money and property seized in that fiscal year and the disposition thereof. The listing shall identify all property so seized. Any agency failing to report as required by this section shall be liable to the state for the full value of all property and money seized. The Attorney General shall institute civil actions for recovery of money or property obtained or retained in violation of KRS 218A.405 to 218A.460. The Auditor of Public Accounts, the Secretary of Justice, or the Attorney General may at any time initiate an inquiry to determine that any agency is utilizing proceeds from the fund established in KRS 218A.435 in accordance with law, or an inquiry to determine that property is being forfeited as required by KRS 218A.405 to 218A.460. We recommend the Sheriff comply with the above statutes by submitting the required reports.

*County Sheriff's Response:*

*We will comply.*

10. The Sheriff Should Properly Account For All Contract Labor Transactions

The Sheriff made payments of \$1,579 for contract labor for which he did not prepare a W-2 or Form 1099. The Sheriff should prepare a 1099 form for each employee who does contract labor. In the future, we recommend the Sheriff comply with state and federal regulations pertaining to the payment of wages by preparing the required forms.

*County Sheriff's Response:*

*We are complying with this now.*

LAUREL COUNTY  
GENE HOLLON, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2001  
(Continued)

11. The Sheriff Should Provide The Same Health Insurance Coverage To All Employees

The Sheriff purchased health insurance for his employees during 2001 from monies generated from fee account business. The Sheriff's fee account paid for 80% of all health insurance premiums leaving the employees' share to be 20%. The Sheriff's office has a policy and procedures manual dated January 3, 1994; however it does not specify any benefits for health insurance. Therefore, the Sheriff's office will have to abide by the Fiscal Court's personnel policy which specifies that 100% of the insurance premium is paid for a single plan while 80% is paid for a family plan. We recommend the Sheriff comply with the Fiscal Court's personnel policy in the payment of health insurance premiums for employees.

*County Sheriff's Response:*

*We will comply with the Fiscal Court Policy.*

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend the following compensating controls be implemented to offset this internal control weakness.

- The Sheriff should periodically review the daily checkout sheet and daily bank deposit. The daily checkout sheet should agree to the daily receipts ledger and any differences noted should be investigated.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should prepare a monthly bank reconciliation that should reconcile to the receipts and disbursements ledgers. Any differences should be investigated.
- The Sheriff should require two (2) signatures on all checks written.

*County Sheriff's Response:*

*We understand.*

LAUREL COUNTY  
GENE HOLLON, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2001  
(Continued)

PRIOR YEAR:

- The Sheriff Should Eliminate His Deficit
- Proper Documentation Should Be Kept For All Expenditures And Bids Should Be Obtained For All Expenditures Requiring Bids
- The Sheriff Should Publish His Annual Financial Statement
- The Sheriff Should Properly Account For All Contract Labor Transactions
- Salaries Should Be Approved By The Fiscal Court
- The Sheriff Should Submit Required Financial Reports To The Department For Local Government
- The Sheriff Should Receive Salary In Accordance With The Salary Recommended By The Department For Local Government
- The Sheriff Should Pay Excess Fees To The Fiscal Court
- The Sheriff Should Provide The Same Health Insurance Coverage To All Employees
- The Sheriff's Office Lacks Adequate Segregation Of Duties

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

Honorable Lawrence Kuhl, Laurel County Judge/Executive  
Honorable Gene Hollon, Laurel County Sheriff  
Members of the Laurel County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Laurel County Sheriff for the year ended December 31, 2001, and have issued our report thereon dated September 24, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Laurel County Sheriff's financial statement for the year ended December 31, 2001 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Eliminate Deficit In His Official Fee Account
- The Sheriff Should Present His Settlement To The Fiscal Court And Pay Excess Fees
- The Sheriff Should Receive Salary In Accordance With The Salary Recommended By The Department For Local Government
- The Sheriff Should Avoid Paying For Late Charges And Interest From His Official Fee Account
- The Sheriff Should Account For All Receipts Properly
- Proper Documentation Should Be Kept For All Expenditures And Bids Should Be Obtained For All Expenditures Requiring Bids
- The Sheriff Should Publish His Annual Financial Statement
- The Sheriff Should Submit Required Financial Reports To The Department For Local Government



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance (Continued)

- The Sheriff Should Submit Required Reports For Asset And Forfeiture Transactions
- The Sheriff Should Properly Account For All Contract Labor Transactions
- The Sheriff Should Provide The Same Health Insurance Coverage To All Employees

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Laurel County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the lack of adequate segregation of duties to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
May 14, 2004

